



ALMA
ASSET & LIABILITY MANAGEMENT ASSOCIATION

specimen paper

**Certificate of Banking Asset
& Liability Management
(CertBALM)**

Final Assignment

2016/17

Specimen paper for the final assignment of the Certificate of Banking Asset & Liability Management (CertBALM)

Based on the syllabus assessed from 01 September 2016 to 31 December 2017

Introduction

This specimen paper has been produced by the Education Board at the Asset & Liability Management Association (ALMA) in partnership with the Professional Standards team the Association of Corporate Treasurers (ACT) to assist students in their preparation for the CertBALM assessments. It contains an assignment for the specified unit as well as example answers. It is important to highlight that the answers provided in this paper are not exhaustive and that any other reasonable answers would be awarded marks where necessary in a marked assignment.

Ideally, students should have completed the majority of their CertBALM studies before attempting this specimen paper. Students should allow themselves around up to 1 month to properly analyse the content, questions and write out their answers when completing this specimen assignment. They should then review their performance to identify areas of weakness on which to concentrate the remainder of their study time. When candidates enter for an assignment session, the assignment questions will be released around 1 month prior to the deadline date for submissions. Candidates will then have this time to work on their assignment and submit their final paper online via the eAssessment centre.

Although the specimen exam in this guide is typical of a CertBALM assessment, it should be noted that it is not possible to test every single aspect of the syllabus in any one particular exam. To prepare properly for the examination, candidates should make full use of the tuition options where available and read as widely as possible to ensure that the whole syllabus has been covered.

Assessment technique: CertBALM

This assignment is a professional paper that as well as testing theory expects application to practice at a management level.

The best way to approach assignments is to work methodically through assignment and the questions within. Some tips for candidates are listed here:

- Read the assignment brief (questions) fully and understand what is being asked.
- Make sure that your answer reflects the context of the questions.
- Address all the issues raised in each question. For example, if two issues are required check that you have provided an answer for both issues.
- Do not group parts together; if a question has a part (a) and (b) then you need to answer them separately.
- Ensure that the length and breadth of your answer matches the maximum marks available for the question, e.g. a 30 mark question requires more breadth than 10 or 20 mark questions.
- Ensure that you answer all questions on the assignment brief.
- There is not always a single correct answer for a question and marks will be awarded for all valid responses.
- Your assignment should be no more than 6,000 words.
- Assignments should be typed in word using font size 12

When all of the questions have been answered, it is prudent to use any remaining time before the submission date to go through each question again, carefully, to double-check that nothing has been missed. Altering just one response could make the difference between passing and failing. Remember that for specimen assignment, you are unable to submit your work for marking.

Please ensure you show your workings within your answer when prompted as this means there are marks available for the workings out.

Assessment information

The Final Assignment for the CertBALM consists of 4 written questions; each question is worth 25 marks, with the paper being out of a total of 100 marks.

CertBALM assessment test specification:

Section	Amount of questions	Marks available
Section A	4 Assignment form questions	25 x 4 questions
Total	4	100

Candidates will have roughly 30 days to submit their finished assignment online via the ACT eAssessment centre before the submission deadline date.

The assignment should be submitted as a typed document and be no more than 6,000 words (including text used within tables and charts). Words used within any Appendices will not be included in the word count but information contained within them will only be used for reference purposes and NOT attract marks unless specifically requested within the assignment instructions, and then the words used will form part of the total permitted.

In order for you to determine as to how well you have performed, exemplar answers are listed at the end of this paper. There are also references to the relevant Learning Outcomes if you need to revisit the associated material.

Anti-plagiarism software

Please note that ALMA and the ACT use anti-plagiarism software to ensure that all work submitted is that of the candidates own work throughout.

By submitting assignments, you agree to comply with the following rules:

- The work you submit must be your own and be in your own words.
- You must not copy or amend work from another source including another student.
- Your assignment must not include content which another person has dictated to you.
- Where you draw on other work, you must fully reference it correctly – refer to section 12.1.
- You must not work with another student to write your assignment
- Another person must not write your assignment for you.
- You must not write an assignment for another person.
- You must not be involved in any other dishonourable or unprofessional conduct relating to the completion and submission of your assignments.
- You should take care to safeguard your assignment.

Software checks are with published sources and in some cases with another student. If a match is found then this will be fully investigated and the appropriate action taken. Please refer to the ACT Plagiarism and collusion policy available on our website for more information about what action may be taken if investigated for plagiarism.

Section A – 100 marks

This assignment consists of 4 assignment questions

1. A) Analyse the organisation's capital hierarchy and its main sources of capital that exist within the numerator of the capital adequacy ratio.
- B) Analyse the risks the organisation is taking that are mitigated by its capital resources and the level of capital that the organisation is holding to cover these risks.
- c) Given your analysis to a) and b) above you have been granted a one hour meeting with the CEO, CFO and Treasurer of the bank. Discuss the challenges for the bank regarding capital and recommend actions to address these challenges.

(25 marks)

2. A) Evaluate the organisation's short-term and long-term liabilities and the risk profile that these give rise to, given the assets they are funding.
- B) Discuss the organisation's risk management framework, including committee structure, for managing liquidity and funding and conclude if this framework is fit for purpose
- c) Given a) and b), propose new metrics, risk controls, governance arrangements and/or balance sheet changes you would make to better manage the liquidity and funding risks.

(25 marks)

3. Critically evaluate the organisation's approach to identifying, managing, monitoring and reporting interest rate risk and structural FX risk. Use examples and appropriate calculations to support your answer.

(25 marks)

4. A) Critically evaluate the organisation's risk management strategy, governance, risk culture and how these integrate with asset and liability management.
- B) Analyse how the organisation undertakes the planning cycle for asset and liability management in the medium-term. You are required to examine the effectiveness of the organisation's planning cycle within your answer.
- c) Choose one form of bank valuation model and, using this, propose a valuation for the bank. Within your answer you must explain any assumptions and important drivers of valuation.

(25 marks)

Specimen guide: suggestions and references to relevant unit and learning outcome

Question No.	Syllabus ref:	Student guide
1	Unit: 2 LOs: 1,2,3,4,5 ,6,8,11,1 6,18,19, 20	<p>a). Students should assess the regulatory capital supply by reference to CET1, Tier 1 & Total Capital. Analysis should consider what constitutes the relevant parts of CET1, Tier 1 and Total Capital and how these are reconciled with shareholders' funds from the balance sheet.</p> <p>b). Students should analyse the requirements (demand) to hold capital including credit, market and operational risks and how this is calculated and calibrated into a Risk Weighted Asset output.</p> <p>c). Students should have critiqued the level and quality of capital given the nature of the risks that are being run by the bank and how these are assessed by means of Risk Weighted Assets. Recommendations made should be supported fully.</p>
2	Unit: 3 LOs: 2,3,4,5,7, 8,9,10,11 ,12,13,14 ,15,18,19	<p>a). Students should assess the balance sheet structure of the bank's assets and liabilities; including its business lines, currencies and entity set up. (This may include an assessment of retail and wholesale assets and liabilities, asset encumbrance, currencies, liquidity asset portfolio size and quality and off balance sheet positions etc.) Students should then consider the quantitative framework used by the bank, including both short term and long term metrics to assess liquidity and funding risks (including where appropriate A/D, LCR, NSFR, Wholesale ratios) and assess if their levels are appropriate.</p> <p>b). Given the intrinsic risk position of the bank, students will need to consider if the risk and control framework around liquidity and funding risk of the bank is fit for purpose; so are the measurements and controls/governance arrangements appropriate for managing the risks.</p> <p>c). Given the assessment of the above in a) and b) propose new metrics and any changes you would make or challenges you would have for the management, examples include:</p> <ul style="list-style-type: none"> • Changes to term structure of liabilities • Changes to size of liquidity risk being taken • Changes to mix of customer assets • Changes to mix of type and mix of products • Changes to currency mix • Changes to composition, or size of liquid asset buffer

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<p>3</p>	<p>Unit: 4 LOs: 4,5,6,11, 14,15,21, 22,31,32, 33,34,35, 36,37,38, 42,45,46, 50</p>	<p>Students should define, if possible, the boundary between the trading book versus the banking book for the institution.</p> <p>Students should define the main metrics that the entity uses for MRBB and outline how these are split by business line and currencies. Outline other metrics that you think the business could use, possibly differentiating between earning and value measures.</p> <p>Students should outline the sensitivity of equity and reserves of equity to interest rate movements, if appropriate.</p> <p>Comment and critique on the level of risk, the types of metrics and in addition the management of those metrics.</p> <p>Students should define the main metrics that the entity seeks to use to manage FX risks.</p> <p>Comment and critique on the level of FX risk, the appropriateness of the metrics used in relation to that risk.</p>
<p>4</p>	<p>Unit: 5 LOs: 1,2,3,4,1 5,17,23</p>	<p>a). Students should consider the following areas:</p> <ul style="list-style-type: none"> • Outline the objectives of risk management in the institution. • Is there a clear framework for delivery of these objectives; if so outline this framework. • What is the risk management strategy for identification, monitoring and management of risks? • Is the management of risk aligned with the overall strategy of the bank? • Is the management of risk aligned with the risk appetite setting process? • Is the risk management aligned with the stress testing process? <p>Governance</p> <ul style="list-style-type: none"> • Students should outline who has responsibility for risk; what is the structure of this responsibility. • Students should comment on the effectiveness of this set up. <p>Culture</p> <ul style="list-style-type: none"> • Is there a clear risk culture. • How embedded does this culture appear to be. • Can this be assessed by training, performance reviews, compensation and discipline? <p>b) Examination of the planning process in detail and identify the objectives of what this looks to achieve. Critique the effectiveness of this process.</p>

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		<p>c) Using an appropriate bank valuation model student should make an assessment of the value of the bank and (if appropriate) the value of a share. Students should outline in detail their assumptions and be prepared to back them up. In addition they should identify the sensitivities to those assumptions.</p>
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